Financial Reporting Alert 16-1
June 24, 2016 (Updated March 31, 2017)

Contents

Financial Reporting Considerations Related to the UK's Vote to Leave the EU

On March 29, 2017, the United Kingdom's (UK's) ambassador to the European Union (EU) delivered a letter to the president of the European Council that gave formal notice under Article 50 of the Lisbon Treaty of Britain's withdrawal from the EU ("Brexit") and has set in motion a two-year period of trade, tax, and other exit-related negotiations between the UK and other EU member countries. As financial markets and economic conditions react to the uncertainty that may accompany the negotiation period, some or all of the considerations outlined in this *Financial Reporting Alert* continue to remain relevant. We have updated certain of those considerations, however, and added others (and made some minor editorial changes) to reflect information that has come to light since the alert's original issuance in June 2016:

- *Risk factors and Appendix B* — Updated to (1) remind registrants to consider establishing a process for monitoring material changes in risk factors and (2) provide additional disclosure considerations.
- *Income Tax Considerations section* — Updated to discuss broader in-country and cross-border income tax considerations for entities with operations in the UK. See also Deloitte's separate March 31, 2017, *Financial Reporting Alert* (17-4), which clarifies that the UK's notification under Article 50 does *not* represent an event that would require recognition in the period of notification.
- *Other obligations* — Added to provide additional considerations regarding obligations that could be affected by changes to laws or regulation.

Overview

The UK's vote in the June 23, 2016, referendum to depart from the EU caught many by surprise and has given rise to a host of questions about the near-term and longer-term effects of Brexit on an entity's financial reporting.

The referendum and notice of departure will not result in the UK's immediate exodus from the EU. Parliament must now enact laws to facilitate Brexit, and the UK and European Commission have a two-year window in which to establish its terms.

Although formal separation from the EU will take time, the uncertainty introduced by the vote has already manifested itself in the financial markets. Such uncertainly is likely to affect other areas of the global economy in the short term and is expected to continue at least until the date on which the terms of the UK's exit have been determined.

The impact on entities will vary significantly by industry sector and by other entity-specific factors. However, given the vote's shock to global financial markets and their immediate reaction to it, all entities should consider how they are affected and what they may need to communicate to the market. The following are some near-term considerations:

- Typically, sharp rises in economic uncertainty express themselves initially and most forcefully through the liquidation of financial assets, which can significantly affect the value of currencies and drive down the value of equity securities. Flight by entities to safe-haven assets is also common.
- In the UK corporate sector, the vote to leave the EU is likely to fuel perceptions of uncertainty and depress risk appetite. Lower risk appetite is likely, in turn, to lead to a squeeze in business investment and hiring in UK operations as well as a renewed focus on cash and cost control.
- Legal ramifications will take longer to become clear and will depend on the time frames associated with the terms of the EU departure agreement. However, for at least two years, EU regulations and EU-inspired UK laws will continue to apply.

Given the potentially significant and far-reaching effect of the departure negotiations, entities should be aware of the following financial and regulatory reporting considerations as their next reporting cycle approaches:

- *Risk factors* — The departure process may affect an entity's risk factors, including new risks or changes to existing risks, that may need to be disclosed. Affected registrants may consider developing a process to monitor material developments related to exit negotiations and consider any necessary updates to their risk factors. In an interim report, an entity's disclosures may need to include more detail than the usual summary and reference to the risk factors included in the latest annual report.
- *Accounting policies* — In an uncertain environment, management's disclosure in MD&A of an entity's accounting principles and its methods of applying those principles may be especially critical to an investor's understanding of the entity's financial statements. Further, entities should carefully consider the disclosure requirements in ASC 235-10-50-1 through 50-3[1] related to accounting policies disclosed in either their interim or annual financial statements.

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

- *Impact of market volatility on assumptions and forecasts* — Since short-term or longer-term volatility is likely to affect key assumptions used in the development of forecasts, entities should identify which judgments and disclosures could be affected by the volatility. A good starting point would be an evaluation of the assumptions underlying the critical accounting policies disclosed in MD&A. Accounts that are most sensitive to financial market volatility may include investment balances, foreign currency denominated assets and liabilities, and other market-sensitive assets and liabilities. (See Appendix A for considerations related to selecting the appropriate exchange rate for translation of foreign currency transactions.)

- *Impairment reviews* — Market reaction to the vote may have triggered a requirement for entities to consider whether financial or nonfinancial assets (including goodwill and other intangible assets) are impaired. (See Appendix A for impairment-related considerations.)

- *Financial instrument considerations* — Market reaction to the vote may affect, among other things, impairment assessments, classification of investment securities, hedge accounting, and fair value measurement. (See Appendix A for financial instrument considerations.)

- *Income tax considerations* — Market reaction to the vote may affect a reporting entity's ability to use deferred tax assets or its ability to assert whether undistributed earnings of foreign subsidiaries will remain indefinitely invested. (See Appendix A for tax considerations applicable to entities with foreign operations.)

- *Inventory valuations* — ASC 330 requires inventory to be measured at the lower of its cost or market value. In a volatile economic environment, it may be particularly important for an entity to challenge whether the utility of its inventory on hand has been impaired by changes in price levels or other causes. Entities should apply the guidance in ASC 330-10-35-1 through 35-11, which address adjustments of inventory balances to the lower of cost or market.

- *Long-term intra-entity foreign investments* — ASC 830 permits gains and losses on certain intra-entity foreign currency transactions "of a long-term investment nature" to be treated like translation adjustments instead of being recognized in net income. For a transaction to qualify as a long-term investment, an entity must be able to assert that "settlement is not planned or anticipated in the foreseeable future." An entity that has characterized intra-entity transactions with entities in the UK or the EU as part of its net investment may need to reassess whether that designation is still appropriate. That is, the entity should reassess its assertion that settlement of intra-entity transactions is not planned or anticipated in the foreseeable future.

- *Other obligations* — Entities should take care to identify any obligations that may be affected by a change in law or regulation as a result of the departure process. In theory, such a change could result in the recognition of a new obligation or in the modification or extinguishment of an existing obligation. Although we are not aware of any specific implications, environmental liabilities and asset retirement obligations are examples of liabilities that should be evaluated to determine the effect of changes resulting from the departure process. Entities should consider consultation with legal counsel and accounting advisers to determine the effects of, and timing of accounting recognition for, such changes.

- *Going concern* — Economic changes, particularly those related to anticipated short-term cash flows in regions affected by the vote, may force entities to consider whether they should continue to prepare their financial statements on a going-concern basis. The flowchart in ASC 205-40-55-1 outlines a decision process for use in assessing whether substantial doubt exists about an entity's ability to continue as a going concern and applies to both interim and annual financial statements.

- *Disclosures* — Entities should disclose how and why they have reached certain conclusions, in particular those related to forecasting or financing. SEC registrants should also consider the SEC reporting and disclosure considerations outlined in Appendix B.

Because this massive change in the geopolitical landscape is still in its early days, the implications of the Brexit vote may not become clear until we see its effects on the capital markets and economy and start to understand the political timetable. Practice will no doubt evolve regarding the nature and quantity of disclosures that entities must provide in both interim reporting and annual reports.

Appendix A — Specific Financial Reporting Considerations

Selection of an Appropriate Rate for Translation of Foreign Currency Transactions

ASC 830-30-45-3(b) states that in translating foreign currency revenue, expenses, gains, or losses, entities must use "the exchange rate at the dates on which those elements are recognized." ASC 830-10-55-10 and 55-11 acknowledge the challenges associated with using the actual rate for each transaction and permit the use of average rates as a practical expedient. However, ASC 830-10-55-11 also indicates that "[a]verage rates used shall be **appropriately weighted** by the volume of functional currency transactions occurring during the accounting period" (emphasis added). In light of the potential for significant near-term volatility in foreign currency rates, entities that use average exchange rates in translating income statement activity should ensure that they have appropriately considered such volatility in determining the weighted average rate for a particular reporting period.

Impairment of Nonfinancial Assets (Including Goodwill)

Although the most significant immediate impact of the departure process is likely to be in the form of observable volatility in financial markets, Britain's exit from the EU may also have a longer-term effect on trade with, among, and between entities in Britain and the EU, which could have longer-term economic consequences.

Entities should consider the guidance below in assessing the impact of the Brexit vote on their impairment assessments for nonfinancial assets.

Long-Lived Assets

Under U.S. GAAP, applicable to property, plant, and equipment and the impairment or disposal of long-lived assets (as codified in ASC 360), a long-lived asset or group of assets must be "tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable." When making this assessment, an entity should consider the examples in ASC 360-10-35-21, including whether any of the following has occurred:

- "A significant decrease in the market price of a long-lived asset (asset group)."
- "A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition."
- "A significant adverse change in legal factors, or in the business climate, that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator."
- "A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)."
- "A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life."

If the long-lived asset or asset group is not deemed recoverable (i.e., if the carrying amount of the long-lived asset or asset group "exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset" or asset group), the entity must write down the asset or asset group to its fair value (see ASC 360-10-35-17).

In some cases, entities may conclude that affected long-lived assets will be sold, abandoned, or otherwise disposed of. When the held-for-sale criteria in ASC 360-10-45-9 through 45-11 are met, the entity is required to measure the asset (or asset group) "at the lower of its carrying amount or [its] fair value less cost to sell." A long-lived asset that will be abandoned will continue to be classified as held and used until it is disposed of. Such an asset is disposed of when it ceases to be used. However, a "long-lived asset that [is] temporarily idled shall not be accounted for as if abandoned." Further, when "a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, if any."

Finite-Lived Intangibles

The Brexit vote and longer-term economic changes that may ensue could trigger an entity's need to test its finite-lived intangibles (e.g., customer relationships, royalty, or franchise agreements) for impairment. Entities should apply the recognition and measurement provisions in ASC 360-10-35-17 through 35-35 when reviewing finite-lived intangibles for impairment (see ASC 350-30-35-14). Thus, an entity's analysis of finite-lived intangibles does not differ from its analysis of long-lived assets that are held and used, as discussed above.

Indefinite-Lived Intangibles Other Than Goodwill

The Brexit vote may also give rise to impairment in an indefinite-lived intangible. As noted in ASC 350-30-35-18, when an event or change in circumstances indicates that an indefinite-lived intangible asset is more likely than not impaired (see ASC 350-30-35-18B for guidance on this assessment), an entity would be required to test such asset for impairment even if its annual test for impairment occurs on a different date. Further, ASC 350-30-35-19 indicates that to the extent that an impairment is determined to exist, an entity should recognize an impairment loss equal to the excess of the carrying amount of the impaired intangible asset over its fair value.

Goodwill

Both the near-term and the longer-term effects of the Brexit vote could trigger the need for an entity to test goodwill for impairment. Entities are required to perform annual impairment tests for goodwill, or more frequently in certain circumstances (this requirement is similar to the guidance on other indefinite-lived intangibles). Specifically, under ASC 350-20-35-30, an entity should test goodwill for impairment when an "event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount."

Disclosure Considerations About Impairments

Comprehensive disclosures about asset impairments will help investors and others understand the impact of the current economic uncertainties on an entity's financial performance and position. Entities need to ensure that they provide all of the necessary disclosures about their impaired nonfinancial assets.

Financial Instrument Considerations

The paragraphs below discuss both near-term and longer-term considerations related to financial instruments and financial instrument transactions for entities as the consequences of the Brexit vote come into clearer focus.

Impairment Considerations

The volatility in the global markets as a result of the vote may affect the fair value of any investment, not just those that are directly linked to the UK or EU (e.g., credit spreads may widen or the creditworthiness of counterparties may be affected).

Entities need to review their investments and assess whether they should test them for impairment. When an entity performs such an assessment, it needs to apply the appropriate impairment model under U.S. GAAP. That model will depend on the investment's classification as:

- *Equity securities* — ASC 320-10-35-34 indicates that if an investment in an available-for-sale equity security is considered other than temporarily impaired, the entity recognizes an impairment loss "in earnings equal to the entire difference between the investment's cost and its fair value."

  An available-for-sale equity security may be impaired if it has suffered a significant or prolonged decline in its fair value below its cost. Either the severity or the duration of the investment's decline in value alone may indicate that an investment is other than temporarily impaired.

  Entities with available-for-sale equity securities should also refer to SEC Staff Accounting Bulletin Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities" (ASC 320-10-S99-1), for guidance on determining whether an impairment is other than temporary.

Typically, if the fair value of an available-for-sale equity security continues to fall after an impairment loss has been recognized in earnings, the further declines should be recognized immediately in earnings.[2] Conversely, once an investment in a security is considered other than temporarily impaired, the cost basis of the previously impaired security cannot be adjusted through earnings for subsequent recoveries in the value of the security.

For cost-method equity investments that do not have readily determinable fair values, ASC 320-10-35-25 provides the following guidance on determining whether the investment is impaired:

> a. If an entity has estimated the fair value of a cost-method investment . . . that estimate shall be used to determine if the investment is impaired for the reporting periods in which the entity estimates fair value. . . .
>
> b. For reporting periods in which an entity has not estimated the fair value of a cost-method investment, the entity shall evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment (an impairment indicator).

If the entity determines that such a cost method investment is impaired, it must then assess whether the impairment is other than temporary and whether it must recognize an impairment loss.

- *Available-for-sale and held-to-maturity (HTM) debt securities* — Under ASC 320-10-35, the impairment of a debt security is considered other than temporary if the entity (1) intends to sell the security as of the measurement date or (2) has determined that it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. Further, if an entity has determined that (1) it does not intend to sell the security and (2) it is not more likely than not that it will be required to sell the security before recovery of the security's amortized cost basis, an other-than-temporary impairment is considered to have occurred if the entity does not expect to recover the entire amortized cost basis of the debt security (i.e., a credit loss is considered to have occurred).

  Because recent events may affect investment portfolio decisions, entities should reassess their intention and ability to hold a security and whether any changes to their intention or ability may indicate that such securities are impaired. In determining the amount of impairment loss to recognize, entities should refer to the guidance in ASC 320-10-35-34B through 35-34D and ASC 320-10-35-33D.

- *Investments in equity method investments and joint ventures* — Entities with equity method investments or joint ventures that are adversely affected by the Brexit vote may need to evaluate whether decreases in an investment's value are other than temporary. For these investments, ASC 323-10-35-31 requires the recognition of a loss that is other than temporary even if such a decrease in value is greater than what would otherwise be recognized if the equity method were applied. Evidence of a loss in value might include a lack of ability to recover the carrying amount of an investment or the inability of an investee to sustain an earnings capacity that would justify the carrying amount of the investment. Further, ASC 323-10-35-32 states that a "current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment."

- *Loans* — Creditors that lend to entities that may be adversely affected by the Brexit vote will need to assess whether events have occurred (such as a downgrade in borrower credit ratings or declines in cash flows and liquidity) that indicate that an impairment evaluation is required. It is also possible that the economic uncertainty associated with the Brexit vote could result in loan modifications that may need to be accounted for as troubled debt restructurings in accordance with ASC 310-40.

- *Receivables* — Receivables from entities that may be adversely affected by the Brexit vote may need to be evaluated for collectibility. Entities should pay particular attention to assessing recoverability when receivables are overdue, even if they have the right to charge interest for late payment.

Tainting of HTM Investment Portfolios

As a result of the Brexit vote, entities holding HTM investments issued by institutions that may be adversely affected by the vote may choose to transfer those investments out of the HTM classification or sell them. A decision to transfer or sell an HTM investment could call into question or "taint" the entity's intent to hold other investments in its HTM portfolios in the future unless the sale or transfer qualifies for one of the limited exceptions in ASC 320-10-25. Therefore, entities will need to carefully evaluate whether their sales or transfers of HTM investments meet one of those exceptions.

[2] An entity should continue to evaluate subsequent declines in the fair value of an impaired equity security under ASC 320 to determine whether the decline is other than temporary. However, it may be difficult for the entity to conclude that further declines in the fair value of an equity security previously determined to be other than temporarily impaired are only temporary.

Classification of Current and Noncurrent Financial Liabilities

Liabilities are generally classified as current in an entity's balance sheet if they are reasonably expected to be settled by the entity within 12 months of the end of the reporting period (see ASC 210-10-45-5 through 45-12 for additional discussion). Unstable trading conditions as a result of the Brexit decision, or economic changes that may occur in its wake, may increase the risk that entities breach financial covenants (e.g., fail to achieve a specified level of profits or interest coverage). If such a breach occurs on or before the end of the reporting period and gives the lender the right to demand repayment within 12 months of the end of the reporting period, the liability would generally be classified as current in the borrower's financial statements.

Renegotiation of Financial Liabilities

Volatile market conditions as a result of the Brexit decision may cause some entities to experience financial difficulty, resulting in a greater number of debt restructurings (e.g., to extend the maturity, reduce the coupon rate, or ease the covenant terms). Under ASC 470-50-40, a borrower must assess whether such a restructuring results in a substantially different instrument, in which case the modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. ASC 470-60 provides guidance on whether a debtor should account for a debt restructuring as a troubled debt restructuring.

Impact on Hedge Accounting

Fallout from the Brexit vote could have a significant effect on both (1) the longer-term ability of entities to apply hedge accounting under ASC 815 and (2) near-term earnings related to hedge accounting. Entities should consider the following:

- *Whether the occurrence of forecasted transactions remains probable* — Although Britain's exit from the EU is not expected to take place for two years, uncertainty exists about how trade with, among, and between entities in Britain and the EU may be affected Britain's ultimate exit from the EU and the negotiation of new trade treaties. Longer term, this could affect an entity's ability to assert its intent to make purchases or sales or its intent or ability to roll over debt. Also, as the ramifications of the departure process become clear, it is possible that the ability of counterparties and customers to buy from or lend to the reporting entity may be adversely affected, which could limit an entity's ability to hedge certain transactions. Entities should establish a process to identify such situations should they arise so that the entity may assess the impact (if any) on its cash flow hedge accounting programs.
- *The effect of market volatility on hedge effectiveness* — Entities should carefully consider the impact of credit risk and liquidity risk on hedge effectiveness since both risks can be a source of hedge ineffectiveness.

NPNS Election Under ASC 815

Among other criteria, for an entity to apply the normal purchases and normal sales (NPNS) scope exception in ASC 815 to a contract, the entity must be able to assert that it is probable that the contract will not settle net and will result in physical delivery both (1) at inception and (2) throughout the term of the contract. Accordingly, entities should establish a process to identify the impact (if any) that changes in business operations (e.g., as a result of trade treaties negotiated upon Britain's exit from the EU) may have on an entity's ability to assert that a contract meets the criteria for the NPNS election.

Fair Value Disclosures

The disclosures required under ASC 820 are extensive, particularly about fair value measurements involving significant, unobservable inputs (i.e., Level 3). Entities may need to consider whether the volatility in the financial markets as a result of the departure process would affect the level in which an affected financial instrument is disclosed in the fair value hierarchy (e.g., a financial instrument previously classified in Level 2 would need to be transferred to Level 3 if the fair value consists of significant unobservable inputs). ASC 820 also requires an entity to describe the valuation techniques and inputs it used to determine fair values (by class of financial assets and financial liabilities). In addition, the entity would have to disclose, if applicable, that its valuation technique has changed and the reason for that change.

Income Tax Considerations

Because the UK tax laws and applicable rates will be unchanged by Brexit, "in-country" income tax considerations will largely be limited to the need for entities to reassess the realizability of existing deferred tax assets and existing assertions about whether undistributed earnings of subsidiaries are indefinitely reinvested to the extent that any reduction in forecasted performance or liquidity issues arise as a result of Brexit. In these situations, or in situations in which declining valuations or impairments generate net operating losses, an entity would also need to consider the character (i.e., capital or operating) of the components of the associated net operating losses and evaluate whether there is sufficient appropriate income to fully realize the related deferred tax asset.

That said, most of the income tax considerations regarding Brexit are likely to be focused on remeasurement or on the recognition of deferred tax assets and liabilities pertaining to cross-border transactions that may be affected by Brexit. More specifically, Brexit may affect certain tax treaties that currently exist between UK entities and EU member states. For example, the following directives have been identified as current sources of relief that may not be available after the conclusion of the Brexit process:

- *Parent-Subsidiary Directive* — The elimination of withholding taxes on dividends paid to the "parent companies."
- *Interest and Royalties Directive* — The elimination of certain withholding taxes on interest and royalties.
- *Merger Directive* — The deferral of tax on gains for certain cross-border transactions, transfers of assets, and exchanges of shares within the EU (the applicable national law may permit deferral only until the assets are transferred outside of the EU).

Any potential changes to the applicable withholding tax rates or laws on distributions, interest, or royalties would apply to transactions made **after** the date of withdrawal from the EU. By comparison, withdrawal may trigger the **immediate payment of tax previously relieved or deferred** on tax gains arising from transactions within the scope of the Merger Directive.

Appendix B — SEC Reporting and Disclosure Considerations

SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations," requires SEC registrants to disclose in their MD&A any known trends, events, or uncertainties that are reasonably likely to have a material effect on their liquidity, capital resources, or results of operations.

The SEC staff has also historically provided informal guidance for registrants with foreign operations throughout the world that may be subject to material risks and uncertainties, such as political risks, currency risks, and business climate and taxation risks. The SEC staff has reminded registrants that the effects on their consolidated operations of an adverse event related to these risks may be disproportionate to the size of their foreign operations. Therefore, the staff has historically encouraged registrants to discuss in their MD&A any trends, risks, and uncertainties related to their operations in individual countries or geographic areas and possibly supplement such disclosure with disaggregated financial information about those operations.

Given the significant integration that has historically existed between the UK and EU economies, it is possible that the UK's decision to exit the EU may affect a registrant's operations in the UK, the EU, or both. Although some uncertainty has been observed in the financial markets in response to the Brexit vote, it still may take several years for the effects of Britain's exit from the EU to be fully negotiated and understood. During this period, registrants should consider establishing a process to monitor key developments and consider whether any early-warning disclosures would be appropriate to explain the possible material future favorable or unfavorable effects on an entity's operations. Early-warning disclosures may give investors insight into (1) when charges may be incurred in the future; (2) whether a charge is related to contingencies, restructuring activities, impairment of goodwill or other long-lived assets, or the settlement of uncertain tax positions; (3) when revenue growth or profit margins may not be sustainable because of underlying economic conditions; or (4) when the registrant will be unable to comply with debt covenants. Accordingly, such disclosures may alert investors to the underlying conditions and risks that the entity faces before a material charge or decline in performance is reported.

Consequently, if a registrant (1) has foreign operations in the UK or the EU or (2) is otherwise exposed to business or financial risks resulting from Britain's decision to exit the EU, and either exposure is reasonably likely to have a material effect on the registrant's liquidity, capital resources, or results of operations, the registrant should consider providing enhanced disclosures about the following:

- The extent of the registrant's operations in the affected region(s) (e.g., percentage of sales generated from the region), possibly supplemented with disaggregated financial information about those operations.
- The extent of the registrant's material investments in entities within the region.
- How the developments during the departure process may affect the registrant's operations or investments in the affected region(s) and, ultimately, its liquidity, capital resources, or results of operations.
    - Any other business or financial risks of the registrant related to the affected region(s) (e.g., reliance on significant vendors or customers from the region(s)) and how such risks could affect the registrant's liquidity, capital resources, or results of operations.
    - Any changes to the near- and long-term business plans of the registrant to respond to the circumstances in the affected region.

In addition, SEC Regulation S-K, Item 503(c), "Risk Factors," and SEC Regulation S-K, Item 305, "Quantitative and Qualitative Disclosures About Market Risk," require registrants to disclose risks, including risk factors and market risk. The SEC staff has emphasized that registrants should present tailored risk factors in their filings and avoid using boilerplate language. Registrants should continue to monitor developments in the Brexit process and consider whether to provide more specific discussion and enhanced explanations of how the risks could materially affect their business or investment portfolio. This discussion may be supplemented with quantitative information that provides additional context about the risks.